

**Baylor Alumni Association  
and Subsidiary**  
Consolidated Financial Statements  
May 31, 2012 and 2011  
(With Independent Auditors' Report Thereon)



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### Independent Auditors' Report

The Board of Directors  
Baylor Alumni Association and Subsidiary:

We have audited the accompanying consolidated statements of financial position of Baylor Alumni Association and Subsidiary (the Association) as of May 31, 2012 and 2011, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above, present fairly, in all material respects, the financial position of Baylor Alumni Association and Subsidiary as of May 31, 2012 and 2011, and the changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

August 29, 2012

**Baylor Alumni Association  
and Subsidiary**

Consolidated Statements of Financial Position

May 31, 2012 and 2011

	2012	2011
<b>Assets</b>		
Cash	\$ 271,370	303,095
Accounts receivable	16,110	15,184
Due from Baylor University	5,833	2,525
Contribution receivable	300,000	-
Prepaid expenses	13,338	11,607
Cash restricted/designated for endowments	466,259	522,159
Investments	4,093,336	4,316,741
Restricted agency funds received for the benefit of others	24,093	6,889
Beneficial interest in trust	600,000	200,000
Land	9,296	9,296
Equipment	329,198	329,198
Works of art and other historical treasures	163,923	163,923
Less accumulated depreciation	(301,780)	(285,673)
Total assets	\$ 5,990,976	5,594,944
<b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable	\$ 18,195	13,621
Accrued expenses	39,943	42,983
Agency funds received for benefit of others	24,093	6,889
Total liabilities	82,231	63,493
Net assets:		
Unrestricted:		
Designated for endowment	2,587,865	2,968,246
Undesignated	707,590	304,934
	3,295,455	3,273,180
Temporarily restricted	54,664	59,630
Permanently restricted	2,558,626	2,198,641
Total net assets	5,908,745	5,531,451
Total liabilities and net assets	\$ 5,990,976	5,594,944

See accompanying notes to consolidated financial statements.

**Baylor Alumni Association  
and Subsidiary**

Consolidated Statement of Activities

Year Ended May 31, 2012

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>Revenues:</b>				
Annual membership dues	\$ 253,585	-	-	253,585
Life membership dues	96,672	-	-	96,672
Sustaining membership gifts	214,880	-	-	214,880
Other contributions	660,070	5,350	362,840	1,028,260
Endowment earnings distributed	262,943	-	-	262,943
Commissions on ring sales	66,600	-	-	66,600
Baylor Line advertising and underwriting	38,036	-	-	38,036
Royalties	79,021	-	-	79,021
Lifelong learning	60,733	-	-	60,733
Homecoming events	6,800	-	-	6,800
Other events	92,541	49,314	-	141,855
Miscellaneous revenues	24,136	-	-	24,136
Net assets released from restriction	59,630	(59,630)	-	-
Total revenues	<u>1,915,647</u>	<u>(4,966)</u>	<u>362,840</u>	<u>2,273,521</u>
<b>Expenses:</b>				
Program:				
Membership services	1,103,910	-	-	1,103,910
Management and general	405,428	-	-	405,428
Fund-raising	306,981	-	-	306,981
Total expenses	<u>1,816,319</u>	<u>-</u>	<u>-</u>	<u>1,816,319</u>
Change in net assets before other changes	<u>99,328</u>	<u>(4,966)</u>	<u>362,840</u>	<u>457,202</u>
<b>Other changes:</b>				
Gains (losses) on investments, net of distributions	(599,140)	-	(2,855)	(601,995)
Contribution of beneficial interest in trust	400,000	-	-	400,000
Interest and dividends	122,087	-	-	122,087
Total other changes	<u>(77,053)</u>	<u>-</u>	<u>(2,855)</u>	<u>(79,908)</u>
Change in net assets	22,275	(4,966)	359,985	377,294
Net assets at beginning of year	<u>3,273,180</u>	<u>59,630</u>	<u>2,198,641</u>	<u>5,531,451</u>
Net assets at end of year	<u>\$ 3,295,455</u>	<u>54,664</u>	<u>2,558,626</u>	<u>5,908,745</u>

See accompanying notes to consolidated financial statements.

**Baylor Alumni Association  
and Subsidiary**

Consolidated Statement of Activities

Year Ended May 31, 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Revenues:</b>				
Annual membership dues	\$ 288,562	-	-	288,562
Life membership dues	105,342	-	-	105,342
Sustaining membership gifts	251,619	-	-	251,619
Other contributions	724,260	27,770	92,651	844,681
Endowment earnings distributed	255,762	-	-	255,762
Commissions on ring sales	84,562	-	-	84,562
Baylor Line advertising and underwriting	44,336	-	-	44,336
Royalties	71,079	-	-	71,079
Lifelong learning	68,595	-	-	68,595
Homecoming events	9,667	-	-	9,667
Other events	89,548	31,860	-	121,408
Miscellaneous revenues	18,798	-	-	18,798
Net assets released from restriction	30,900	(30,900)	-	-
Total revenues	<u>2,043,030</u>	<u>28,730</u>	<u>92,651</u>	<u>2,164,411</u>
<b>Expenses:</b>				
Program:				
Membership services	1,117,794	-	-	1,117,794
Management and general	409,727	-	-	409,727
Fund-raising	345,850	-	-	345,850
Total expenses	<u>1,873,371</u>	<u>-</u>	<u>-</u>	<u>1,873,371</u>
Change in net assets before other changes	<u>169,659</u>	<u>28,730</u>	<u>92,651</u>	<u>291,040</u>
<b>Other changes:</b>				
Gains (losses) on investments, net of distributions	407,703	-	-	407,703
Contribution of beneficial interest in trust	200,000	-	-	200,000
Interest and dividends	126,240	-	-	126,240
Loss on disposal of property	(1,744)	-	-	(1,744)
Total other changes	<u>732,199</u>	<u>-</u>	<u>-</u>	<u>732,199</u>
Change in net assets	901,858	28,730	92,651	1,023,239
Net assets at beginning of year	<u>2,371,322</u>	<u>30,900</u>	<u>2,105,990</u>	<u>4,508,212</u>
Net assets at end of year	<u>\$ 3,273,180</u>	<u>59,630</u>	<u>2,198,641</u>	<u>5,531,451</u>

See accompanying notes to consolidated financial statements.

**Baylor Alumni Association  
and Subsidiary**

Consolidated Statement of Functional Expenses

Year Ended May 31, 2012

	<u>Program</u>			
	<u>Membership</u>	<u>Management</u>		
	<u>Services</u>	<u>and General</u>	<u>Fund-raising</u>	<u>Total</u>
Computer charges	\$ -	20,183	-	20,183
Telephone	-	18,485	-	18,485
Insurance	-	9,517	-	9,517
Travel and meals	6,343	1,892	17,974	26,209
Guest services	14,436	2,674	12,772	29,882
Processing charges	-	13,992	-	13,992
Advertising and promotion	5,372	-	6,000	11,372
Catering for special events	90,522	740	14,844	106,106
Printing	109,342	2,353	3,785	115,480
Postage	36,242	1,545	924	38,711
Supplies	9,042	9,959	2,248	21,249
Professional fees:				
Baylor Line	102,554	-	-	102,554
Other	118,808	36,973	3,028	158,809
Contributions	-	2,882	-	2,882
Event supplies	30,097	109	1,593	31,799
Rent/lease	53,182	5,525	7,139	65,846
Personnel costs	463,391	245,881	236,424	945,696
Depreciation	-	16,107	-	16,107
Contract labor	3,506	905	100	4,511
Scholarships	60,000	-	-	60,000
Miscellaneous	1,073	15,706	150	16,929
	<u>\$ 1,103,910</u>	<u>405,428</u>	<u>306,981</u>	<u>1,816,319</u>

See accompanying notes to consolidated financial statements.

**Baylor Alumni Association  
and Subsidiary**

Consolidated Statement of Functional Expenses

Year Ended May 31, 2011

	<u>Program</u>			
	<u>Membership</u>	<u>Management</u>		
	<u>Services</u>	<u>and General</u>	<u>Fund-raising</u>	<u>Total</u>
Computer charges	\$ -	19,936	-	19,936
Telephone	181	17,777	-	17,958
Insurance	-	10,281	-	10,281
Travel and meals	6,927	3,577	25,019	35,523
Guest services	8,228	2,893	9,409	20,530
Processing charges	-	14,036	-	14,036
Advertising and promotion	8,709	-	13,496	22,205
Catering for special events	77,983	2,214	12,744	92,941
Printing	101,967	1,272	5,005	108,244
Postage	36,532	1,754	985	39,271
Supplies	11,810	10,753	2,733	25,296
Professional fees:				
Baylor Line	106,511	-	-	106,511
Other	98,451	36,901	4,420	139,772
Contributions	4,450	2,906	-	7,356
Event supplies	30,448	-	2,034	32,482
Rent/lease	43,534	5,618	7,912	57,064
Personnel costs	546,019	257,328	261,903	1,065,250
Depreciation	-	16,504	-	16,504
Contract labor	2,325	425	-	2,750
Scholarships	30,900	-	-	30,900
Miscellaneous	2,819	5,552	190	8,561
	<u>\$ 1,117,794</u>	<u>409,727</u>	<u>345,850</u>	<u>1,873,371</u>

See accompanying notes to consolidated financial statements.

**Baylor Alumni Association  
and Subsidiary**

Consolidated Statements of Cash Flows

Years Ended May 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:		
Change in net assets	\$ 377,294	1,023,239
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Contributions to permanent endowments	(362,840)	(92,651)
Depreciation expense	16,107	16,504
Interest and dividends from investments	122,087	126,240
Net realized and unrealized loss (gain) on investments	339,052	(663,465)
Beneficial interest in trust contributions	(400,000)	(200,000)
Loss on disposal of property	-	1,744
Decrease (increase) in accounts receivable	(926)	5,822
Decrease (increase) in due from Baylor University	(3,308)	2,306
Increase in contribution receivable	(300,000)	-
Increase in prepaid expenses	(1,731)	(9,404)
Increase (decrease) in accounts payable	4,574	(55,281)
Increase (decrease) in accrued expenses	(3,040)	(56,939)
Decrease in deferred revenue	-	(34,104)
Net cash provided by (used in) operating activities	<u>(212,731)</u>	<u>64,011</u>
Cash flows from investing activities:		
Net proceeds from disposal of property	-	1,500
Proceeds from sale of investments	181,006	6,809
Purchase of assets restricted for permanent endowments	(362,840)	(92,651)
Capital expenditures	-	(12,191)
Net cash used in investing activities	<u>(181,834)</u>	<u>(96,533)</u>
Cash flows from financing activities:		
Proceeds from contributions to permanent endowments	<u>362,840</u>	<u>92,651</u>
Net cash provided by financing activities	<u>362,840</u>	<u>92,651</u>
Net increase (decrease) in cash	(31,725)	60,129
Cash at beginning of year	<u>303,095</u>	<u>242,966</u>
Cash at end of year	<u>\$ 271,370</u>	<u>303,095</u>

See accompanying notes to consolidated financial statements.



**Baylor Alumni Association  
and Subsidiary**

Notes to Consolidated Financial Statements

May 31, 2012 and 2011

(1) Summary of Significant Accounting Policies

(a) Organization

Baylor Alumni Association and Subsidiary (collectively, the Association) was organized to provide support for benevolent, charitable, and educational undertakings by extending financial and other aid to Baylor University and to students thereof, by generally encouraging sentiments favorable to education and by promoting union of and good fellowship among former students. The Association serves as the general alumni organization of Baylor University, coordinates all alumni activities and maintains the administrative agency and executive personnel needed to provide for continuity of alumni activity and interest. Revenues are derived mainly from annual and life membership dues, royalties, charitable contributions and investment income.

Baylor Alumni Association is a non-profit Texas corporation without capital stock. Baylor Alumni Association's wholly-owned subsidiary, Baylor Alumni Service Enterprises, Inc. (the Corporation), was incorporated by Baylor Alumni Association on September 12, 1980 under the Texas Nonprofit Corporation Act. Under the provisions of the Act, no shares of stock are issued to represent ownership. The initial capital contribution to establish the Corporation was provided by the Baylor Alumni Association, and any net income inures to the benefit of the Baylor Alumni Association. The Corporation was formed to handle certain sales and related expenses, promotional activities, and any other projects that Baylor Alumni Association might deem appropriate. The Corporation had no operating activity for 2012 and 2011. The officers and directors of the Corporation serve in the same capacity as officers and directors of the Baylor Alumni Association.

(b) Basis of Presentation

The consolidated financial statements include the accounts of the Association and its wholly-owned subsidiary, Baylor Alumni Service Enterprises, Inc. All significant intercompany transactions and accounts have been eliminated in consolidation.

(c) Cash Equivalents

For purposes of the consolidated statements of cash flows, the Association considers all highly liquid assets with original maturities of three months or less to be cash equivalents. Cash and cash equivalents designated for long-term purposes or received with donor-imposed restrictions limiting their use to long-term

**Baylor Alumni Association  
and Subsidiary**

Notes to Consolidated Financial Statements  
(Continued)

(1) Summary of Significant Accounting Policies (continued)

(c) Cash Equivalents (continued)

purposes are not considered cash and cash equivalents for purposes of the statement of cash flows. There were no cash equivalents at May 31, 2012 and 2011.

(d) Investments

Investments are measured at fair value in the consolidated statements of financial position. Investment income (including gains and losses on investments, interest, and dividends) is included in the consolidated statements of activities as increases or decreases in unrestricted net assets unless the income or loss is restricted by donor or law.

(e) Equipment, Works of Art and other Historical Treasures

Purchased equipment, works of art and other historical treasures are stated at cost as of the date of acquisition. Assets which are received from donations are recorded at fair value at the date of the gift. Equipment is depreciated on the straight-line method over the estimated useful lives of the assets. Depreciation on works of art and other historical treasures is not recorded. The Association capitalizes all acquisitions with a value greater than \$1,000. Costs of maintenance and repairs are charged to operations as incurred.

(f) Temporarily Restricted Net Assets

At May 31, 2012 and 2011, temporarily restricted net assets of \$54,664 and \$59,630, respectively, were donor restricted for scholarships.

(g) Permanently Restricted Net Assets

Permanently restricted net assets are restricted to investment in perpetuity. The endowment funds are maintained with other investments administered by an independent trustee.

The Association has established a permanently restricted endowment fund in conjunction with its Sesquicentennial fund-raising campaign. The purpose of the campaign is to raise enough contributions to “endow” various employment

**Baylor Alumni Association  
and Subsidiary**

Notes to Consolidated Financial Statements  
(Continued)

(1) Summary of Significant Accounting Policies (continued)

(g) Permanently Restricted Net Assets (continued)

positions as well as programs sponsored by the Association so that they will be self-sustaining in future years through income earned on the restricted net assets. The Abner V. McCall endowment fund was established so that investment income of the permanently restricted net assets would be available for general operations of the Association. Various other donors have made contributions to establish endowed scholarship funds so that the investment income earned from the permanently restricted net assets would be available for scholarships provided by the Association.

(h) Designated Net Assets

Certain assets received by the Association, which are unrestricted in nature, have been designated by the Board of Directors for a particular purpose. These commitments are presented separately in the net assets of the Association as being designated.

The Board has designated \$1 per membership from the annual membership dues for the scholarship fund of Baylor University. The scholarship amounts for 2012 and 2011 of \$2,782 and \$2,856, respectively, were paid and/or accrued to Baylor University as of May 31, 2012 and 2011. In addition, all of the life membership dues and investment income not used for current year operations are designated for the unrestricted endowment fund of the Association.

(i) Fair Value Hierarchy

Generally accepted accounting principles establish a fair value hierarchy that prioritizes the inputs to valuation techniques used for fair value measurements of nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the consolidated financial statements. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

**Baylor Alumni Association  
and Subsidiary**

Notes to Consolidated Financial Statements  
(Continued)

(1) Summary of Significant Accounting Policies (continued)

(i) Fair Value Hierarchy (continued)

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Association has the ability to access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability.

(j) Support and Expenses

Contributions received and unconditional promises to give are measured at their fair values and are reported as an increase in net assets. The Association reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets, or if they are designated as support for future periods. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities as net assets released from restrictions. Donor restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support.

The Association reports gifts of land and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Association reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

(k) Advertising

Advertising costs, except for costs associated with direct-response advertising, are charged to operations when incurred. Advertising costs charged to operations were \$11,372 and \$22,205 for the years ended May 31, 2012 and 2011, respectively.

**Baylor Alumni Association  
and Subsidiary**

Notes to Consolidated Financial Statements  
(Continued)

(1) Summary of Significant Accounting Policies (continued)

(l) Income Taxes

Baylor Alumni Association qualifies as a non-profit organization under Section 501(c)(3) of the Internal Revenue Code. Therefore, the Association is generally exempt from federal and state income taxes.

The Association recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. The Association is no longer subject to U.S. federal and state income tax examinations by tax authorities for years including and subsequent to 2009.

The Association records interest related to unrecognized tax benefits and penalties in management and general expenses. There were no interest and penalties for 2012 and 2011.

(m) Fund-raising Expenses

Fund-raising expenses consist primarily of membership development and solicitation activities through direct mail and telephone initiatives, as well as personnel costs and direct expenses of the Sesquicentennial campaign and Hall of Fame scholarship fundraiser.

(n) Functional Allocation of Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the statements of activities and in the statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

(o) Agency Transactions

The Association recognizes an asset and corresponding liability for funds received in connection with agency transactions. The financial effects of transactions related to agency funds are recorded as changes in the funds held for agencies liability and are not included in the consolidated statements of activities.

**Baylor Alumni Association  
and Subsidiary**

Notes to Consolidated Financial Statements  
(Continued)

(1) Summary of Significant Accounting Policies (continued)

(p) Use of Estimates

Management has made estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities in the preparation of these consolidated financial statements. Significant items subject to such estimates and assumptions include the carrying value of equipment and fair values of investments and beneficial interest in trust. Actual results could differ from those estimates and assumptions.

(q) Reclassifications

Certain 2011 consolidated financial statement balances have been reclassified to conform to the 2012 presentation.

(2) Investments

At May 31, 2012 and 2011, the Association's investments consisted entirely of the Group Investment Fund of the Baptist Foundation of Texas (the Fund). The Fund is measured at fair value using a Level 2 input (as defined in Note 1(i)). This input consist of the net asset value per share of the Fund. The Fund's long-term asset allocation is well diversified, investing in global equities, fixed income, real estate and private equity. Using the Fund's asset allocation percentages at May 31, 2012 and 2011, the Association's investment would have been allocated as follows:

	<u>2012</u>	<u>2011</u>
Equity securities - domestic	\$ 1,229,229	1,256,603
Equity securities - international	1,079,822	1,297,181
Debt securities	824,398	826,656
Real estate	340,566	323,324
Private equity	199,345	142,884
Money market	419,976	470,093
	<u>\$ 4,093,336</u>	<u>4,316,741</u>

**Baylor Alumni Association  
and Subsidiary**

Notes to Consolidated Financial Statements  
(Continued)

(3) Beneficial Interest in Trust

During 2009, a perpetual charitable trust (the Trust) was established by an outside grantor, whereby, the Association, along with four other organizations, was named a beneficiary. Each year 50% of the Trust income will be distributed to the beneficiaries based on their stated proration and the remaining 50% will be reinvested into the corpus of the Trust. The Association's pro-rata share is 20%. The Trust term is 50 years and at the end of the term all mineral and royalty assets of the Trust will be distributed to Baylor University and the remainder of all assets will be distributed to all the beneficiaries based on the same proportionate share as the income distributions.

Funding of the Trust came from the estate of the grantor upon death, which occurred in December 2010. As of May 31, 2011, the executor was in the process of satisfying the estate's liabilities and certain specific bequests and obtaining valuations of certain mineral interests. At May 31, 2011 the fair value of Association's interest was estimated to be in the range of \$1,000,000 to \$3,000,000. Due to the uncertainty of this estimate management elected to use a conservative calculation of 20% of \$1,000,000 to determine the fair value of \$200,000 for its beneficial interest at May 31, 2011. At May 31, 2012 the fair value of the beneficial interest was updated and was estimated to be in the range of \$3,000,000 to \$3,500,000. Again, due to the uncertainty of this estimate management elected to use a conservative calculation of 20% of \$3,000,000 to determine the fair value of \$600,000 for its beneficial interest at May 31, 2012. The change of \$400,000 in the estimated fair value of the beneficial interest at May 31, 2012 was recognized as contribution revenue in the 2012 consolidated statement of activities.

In determining the fair value of its beneficial interest, management used Level 3 inputs (as defined in Note 1(i)) developed from the best information available. Due to the ongoing liquidation of the estate and funding of the Trust there is significant uncertainty in the value of funds the Trust will receive from the estate.

(4) Endowment

The Association's endowment consists of approximately 22 individual funds established for a variety of purposes. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. As a result, the Association classifies

**Baylor Alumni Association  
and Subsidiary**

Notes to Consolidated Financial Statements  
(Continued)

(4) Endowment (continued)

as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations (decrements) to the permanent endowment made in accordance with the direction of the applicable donor gift instrument.

The Association has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowments while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Association must hold in perpetuity as well as board-designated funds. Under this policy the endowment assets are invested in a manner that is intended to produce a real rate of return of at least 5% net of expenses, on an annualized basis. Actual returns in any given year may vary from this amount. Investment income from permanent endowments for non-scholarship funds, which includes interest and dividends as well as realized and unrealized gains and losses, are included in unrestricted net assets. Investment losses from permanent endowments for scholarship funds are charged to permanently restricted net assets, while investment income in excess of accumulated investment losses is included in temporarily restricted net assets for the use of scholarships.

Investment income from the designated endowment available to be spent for operations in 2012 and 2011 was \$262,943 and \$255,762, respectively, and was based on the Association's spending policy discussed above.

The following is the composition of endowment net assets by type of fund as of May 31, 2012 and 2011:

	<u>Unrestricted, Designated</u>	<u>Permanently Restricted</u>	<u>Total</u>
At May 31, 2012:			
Donor-restricted endowments	\$ -	2,558,626	2,558,626
Board designated endowment	<u>2,587,865</u>	<u>-</u>	<u>2,587,865</u>
	<u>\$ 2,587,865</u>	<u>2,558,626</u>	<u>5,146,491</u>



**Baylor Alumni Association  
and Subsidiary**

Notes to Consolidated Financial Statements  
(Continued)

(4) Endowment (continued)

	<u>Unrestricted, Designated</u>	<u>Permanently Restricted</u>	<u>Total</u>
At May 31, 2011:			
Donor-restricted endowments	\$ -	2,198,641	2,198,641
Board designated endowment	<u>2,968,246</u>	<u>-</u>	<u>2,968,246</u>
	<u>\$ 2,968,246</u>	<u>2,198,641</u>	<u>5,166,887</u>

Changes in endowment net assets for the years ended May 31, 2012 and 2011 follow:

	<u>Unrestricted, Designated</u>	<u>Permanently Restricted</u>	<u>Total</u>
For the year ended May 31, 2012:			
Endowment net assets, beginning of year	\$ 2,968,246	2,198,641	5,166,887
Contributions and additions	96,672	362,840	459,512
Investment losses	(214,110)	(2,855)	(216,965)
Distributed earnings	<u>(262,943)</u>	<u>-</u>	<u>(262,943)</u>
Endowment net assets, end of year	<u>\$ 2,587,865</u>	<u>2,558,626</u>	<u>5,146,491</u>
For the year ended May 31, 2011:			
Endowment net assets, beginning of year	\$ 2,328,961	2,105,990	4,434,951
Contributions and additions	105,342	92,651	197,993
Investment income	789,705	-	789,705
Distributed earnings	<u>(255,762)</u>	<u>-</u>	<u>(255,762)</u>
Endowment net assets, end of year	<u>\$ 2,968,246</u>	<u>2,198,641</u>	<u>5,166,887</u>

**Baylor Alumni Association  
and Subsidiary**

Notes to Consolidated Financial Statements  
(Continued)

(5) Related Party Transactions

Baylor University provides various services to the Association for which the costs are reimbursed by the Association. Expenses reflected in the accompanying consolidated financial statements that related to these services for the years ended May 31, 2012 and 2011 were \$22,647 and \$24,774, respectively.

The Association receives investment income on certain endowment funds administered by Baylor University. Investment income received by the Association from these endowments for the years ended May 31, 2012 and 2011 totaled \$30,829 and \$26,940, respectively.

The Association made contributions of approximately \$62,882 and \$166,706 to Baylor University during 2012 and 2011, respectively. The funds for these contributions were contributed to the Association from its members.

The Association has an exclusive license agreement with Baylor University, whereby the Association has the right to use the office building they are currently occupying on the Baylor University campus for an indefinite term. In 1995, it was agreed that the Association would be responsible for the expenses of any future renovations or additions to the building. Subsequently the Association raised the required funds of approximately \$3 million to renovate and expand the building. In exchange, Baylor University allows the Association to occupy the building at no charge and the Association is also not required to reimburse Baylor University for the operating costs related to the building. The construction for the expansion was completed in 1999. If Baylor University terminates the Association's right to use the office building, they must provide the Association with another building comparable in size, condition and location. Due to the indefinite term of the agreement and the difficulty in calculating the fair value of the forgone occupancy costs of the building, these amounts are not recorded in the consolidated financial statements.

(6) Intentions to Give

During 2012 and 2011, the Association received contributions from various donors totaling \$47,340 and \$17,630, respectively, for the Sesquicentennial Campaign, as more fully described in Note 1(g). In addition, various donors have made pledges (intentions to give) for future contributions to the campaign. These intentions to give will not be reflected as contributions in the accompanying consolidated statements of activities until the pledges are collected.

**Baylor Alumni Association  
and Subsidiary**

Notes to Consolidated Financial Statements  
(Continued)

(7) Contribution Receivable

A contribution receivable is recognized at fair value when the donor makes a promise to give to the Association that is, in substance, unconditional. The \$300,000 contribution receivable as of May 31, 2012 is due as follows: 2013, \$50,000; 2014, \$83,333; 2015, \$83,333; and 2016, \$83,334.

(8) Leases

The Association has a noncancelable operating lease for postage equipment that expires in one year and a noncancelable operating lease for a copier that expires in 4 years. The Association also leased other equipment, storage space and facilities for special events throughout the year. Rental expenses for 2012 and 2011 were \$65,846 and \$57,064, respectively. Future minimum lease payments under the noncancelable operating leases are as follows: 2013, \$5,846; 2014, \$2,436; 2015, \$2,436; 2016, \$2,436 and 2017, \$203.

(9) Employee Benefit Plan

The Association sponsors a 403(b)(9) defined contribution plan. All employees who have attained the age of 21, are not a student, are full-time employees, and have one year of service are eligible for the plan. The plan allows employees to make voluntary pre-tax salary contributions up to an annually defined maximum as allowed by the Internal Revenue Code. The Association contributed 6% of employees' compensation to the plan through 2011. Employer contributions to the plan were suspended in 2012. Total contributions to the plan were \$39,499 in 2011.

(10) Business and Credit Concentrations

At May 31, 2012 and 2011, and periodically throughout the years then ended, the Association maintained balances in deposit accounts at a financial institution in excess of federally insured limits.

(11) Subsequent Events

Subsequent events have been evaluated through August 29, 2012 which is the date the consolidated financial statements were available to be issued.